

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 FTC-01 AID-05 CEA-01
CIAE-00 COME-00 EB-08 FRB-03 INR-10 NSAE-00 SP-02
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R 171709Z AUG 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 9257
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
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AMEMBASSY DUBLIN
AMEMBASSY MADRID
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TAGS: UK, EIND, EFIN, PINT
SUBJECT: THE CHRYSLER (UK) SAGA -- THE FRENCH CONNECTION

SUMMARY: THE PEUGEOT-CITROEN OFFER TO PURCHASE
THE EUROPEAN ASSETS AND LIABILITIES OF THE CHRYSLER
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PORATION REQUIRES HMG'S APPROVAL AS ONE CONDITION OF THE
SALE. (SEE PARIS 25101.) CHRYSLER'S CHECKERED HISTORY
IN THE UK, POTENTIAL JOB LOSSES IN SCOTLAND, THE IMPACT
OF THE PROPOSED SALE ON STATE-OWNED BRITISH LEYLAND, AND
THE UPCOMING GENERAL ELECTION WILL ALL PLAY A PART IN
HMG'S ULTIMATE DECISION. EARLY INDICATIONS POINT TO A
GO-AHEAD CONTINGENT ON PEUGEOT'S WILLINGNESS TO PROVIDE

SOME FORM OF EMPLOYMENT GUARANTEE FOR CHRYSLER'S UK PLANTS. BUT, NO FINAL DECISION IS EXPECTED BEFORE THE MIDDLE OF SEPTEMBER. END SUMMARY.

1. THE AUGUST 9 ANNOUNCEMENT THAT PEUGEOT-CITROEN HAD REACHED AGREEMENT WITH CHRYSLER(US) TO PURCHASE THE LATTER'S EUROPEAN ASSETS AND LIABILITIES IN FRANCE, SPAIN AND THE UK WAS GREETED IN BRITAIN WITH A MIXTURE OF SURPRISE AND CONSTERNATION. THE TERMS OF THE PROPOSED SALE INCLUDE THE PAYMENT OF \$230 MILLION IN CASH PLUS THE TRANSFER TO CHRYSLER OF A 15 PERCENT EQUITY HOLDING IN PEUGEOT, WORTH IN EXCESS OF \$200 MILLION. CONSUMMATION OF THE DEAL IS CONTINGENT ON GOVERNMENT APPROVAL IN EACH OF THE CONCERNED COUNTRIES.

2. THE PEUGEOT OFFER MARKS THE SECOND TIME THAT THE TROUBLED UK SUBSIDIARY OF CHRYSLER HAS FIGURED IN SOME DRAMATIC FINANCIAL MANEUVERING. IN DECEMBER 1975, HMG MOUNTED A LAST-MINUTE RESCUE OPERATION WHICH MADE AVAILABLE 162.5 MILLION POUNDS IN GRANTS AND LOANS TO FORESTALL CHRYSLER'S WITHDRAWAL FROM MOTOR VEHICLE PRODUCTION IN THE UK. TO DATE ABOUT 81 MILLION POUNDS OF PUBLIC MONEY HAS BEEN ABSORBED BY CHRYSLER OF WHICH 51 MILLION HAS BEEN USED TO COVER UK LOSSES IN 1976 AND 1977 AND 30 MILLION TO FINANCE THE PRODUCTION OF A NEW MODEL. DESPITE THIS INJECTION, CHRYSLER'S SMALL SHARE OF THE UK LIMITED OFFICIAL USE

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MARKET (5 TO 6 PERCENT) AND ITS CHRONIC INDUSTRIAL RELATIONS PROBLEMS, PARTICULARLY IN ITS SCOTTISH PLANT, HAVE PREVENTED IT FROM ACHIEVING THE VOLUME OF OUTPUT NECESSARY FOR COMMERCIAL VIABILITY.

3. WITH PROFITABLE OPERATION IN THE UK PROVING ELUSIVE, AND FACING SERIOUS FINANCIAL DIFFICULTIES IN THE US, IT IS NOT SURPRISING THAT CHRYSLER SHOULD BE SEEKING TO RATIONALIZE ITS WORLD PRODUCTION ACTIVITIES. WHAT IS PERHAPS SURPRISING IS THE SOLUTION CHRYSLER HAS CHOSEN AND THE WAY IN WHICH INTERESTED GOVERNMENTS, PARTICULARLY HMG, WERE KEPT IN THE DARK UNTIL THE VERY LAST MOMENT.

4. WITH THE PEUGEOT TERMS ON THE TABLE THE ATTRACTION OF THE DEAL TO BOTH PARTIES IS INESCAPABLE. AT THE PRICE OF A RELATIVELY SMALL CASH OUTLAY, PEUGEOT WOULD GAIN PRODUCTION CAPACITY IN THREE COUNTRIES SUFFICIENT TO MAKE IT EUROPE'S LARGEST PRODUCER WITH OVER A SIXTH OF THE CONTINENT'S AUTOMOTIVE CAPACITY. AT THE SAME TIME, THE PEUGEOT MOVE WOULD ELIMINATE A RIVAL IN THE FRENCH MARKET AND CREATE THE POSSIBILITY OF ACCESS TO CHRYSLER'S US DEALER NETWORK. FOR ITS PART, CHRYSLER WOULD RID IT-

SELF OF ITS LOSS-MAKING OPERATION IN THE UK, GAIN SORELY
NEEDED CASH FOR ITS COSTLY INVESTMENT PROGRAM, ELIMIN-
ATE SOME \$600 MILLION IN LIABILITIES AND ACQUIRE A 15
PERCENT STAKE IN PEUGEOT.

5. THE VISTA OF A PEUGEOT-CITROEN-CHRYSLER COMBINE HAS
NOT ELICITED A SIMILAR DEGREE OF ENTHUSIASM FROM HMG.
PART OF THE EXPLANATION IS OFFICIAL PIQUE AT HAVING BEEN

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R 171709Z AUG 78

FM AMEMBASSY LONDON
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TREASURY DEPT WASHDC
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EXCLUDED FROM THE NEGOTIATIONS DESPITE THE EXISTENCE OF
A PLANNING AGREEMENT WITH CHRYSLER UK AND THE TERMS OF
THE 1975 RESCUE WHICH WERE SUPPOSED TO HAVE PREVENTED
ANY DISPOSITION OF ASSETS WITHOUT APPROVAL BY HMG.
WHILE PIQUE MAY HAVE DOMINATED THE EARLY OFFICIAL REACTION

TO THE PEUGEOT ANNOUNCEMENT, MORE SUBSTANTIVE ECONOMIC CONCERNS QUICKLY SURFACED IN THE DAYS THAT FOLLOWED. THESE CENTERED ON:

- THE SECURITY OF THE 25,000 JOBS IN CHRYSLER'S

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UK PLANTS;

- THE IMPACT OF THE PEUGEOT ACQUISITION ON THE FUTURE VIABILITY OF BRITISH LEYLAND.

THESE MORE FUNDAMENTAL QUESTIONS HAVE TOUCHED OFF A ROUND OF INTENSIVE CONSULTATIONS BY UK INDUSTRY SECRETARY ERIC VARLEY WITH THE LEADERSHIP OF AFFECTED TRADE UNIONS AND WITH PEUGEOT. THESE ARE STILL IN THEIR EARLY STAGES, AND NO FIRM STATEMENT OF HMG POLICY IS EXPECTED BEFORE MID-SEPTEMBER.

6. IN POINT OF FACT, HMG'S ALTERNATIVES ARE STARK. THE DEAL COULD BE REJECTED, IN WHICH CASE PEUGEOT HAS STATED THAT ITS OFFER WOULD BE WITHDRAWN. WITH CHRYSLER'S NEED TO END ITS UK LOSSES BEING NO LESS ACUTE, HMG WOULD THEN HAVE TO CHOOSE AMONG CONTINUING TO SUPPORT CHRYSLER UNDER THE 1975 AGREEMENT HOPING THAT CHRYSLER'S FORTUNES WILL IMPROVE, OR AGREEING TO A SUBSTANTIAL REORGANIZATION AND THE PROVISION OF A FURTHER INJECTION OF PUBLIC MONEY, OR EVEN A COMPLETE SHUTDOWN. NONE OF THESE OPTIONS IS ATTRACTIVE, PARTICULARLY DURING THE RUN-UP TO A GENERAL ELECTION.

7. ALTERNATIVELY, HMG COULD APPROVE THE PEUGEOT OFFER AFTER HAVING EXTRACTED WHATEVER GUARANTEES IT CAN FROM THE FRENCH FIRM CONCERNING THE ASSUMPTION OF CHRYSLER'S OBLIGATIONS UNDER THE TERMS OF THE 1975 RESCUE OPERATION. SINCE PEUGEOT IS FINANCIALLY STRONGER THAN WAS CHRYSLER, IT IS UNLIKELY THAT IT WOULD AGREE TO THE SORT OF HMG OVERSIGHT ON LEVELS OF INVESTMENT AND EMPLOYMENT THAT CHRYSLER ACCEPTED IN THE 1975 RESCUE. THUS A GREEN LIGHT FROM HMG WOULD MEAN THAT SOME EVENTUAL RATIONALIZATION OF CHRYSLER'S UK PRODUCTION CAPACITY WOULD BE ALL BUT INEVITABLE. YET, A GO-AHEAD FROM HMG MIGHT MAKE THE POSITION LIMITED OFFICIAL USE

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OF PUBLICLY-OWNED BRITISH LEYLAND EVEN MORE PRECARIOUS, FACED AS IT WOULD BE WITH THE NEED TO COMPETE WITH THREE LARGE INTEGRATED COMMON MARKET PRODUCERS (GM, FORD AND PEUGEOT).

8. PUT AT ITS BAREST, HMG MAY HAVE TO WEIGH THE ECONOMIC AND POLITICAL CONSEQUENCES ACCOMPANYING THE PROBABLE COLLAPSE OF CHRYSLER AGAINST THE POSSIBLE THREAT TO SOME OF THE 180,000 JOBS IN BRITISH LEYLAND REPRESENTED BY THE EMERGENCE OF A THIRD STRONG COMPETITOR IN THE UK.

9. WHAT EVIDENCE THERE IS SEEMS TO POINT TO AN APPROVAL OF THE DEAL FROM HMG. MR. VARLEY HAS STATED THAT THE DEPARTMENT OF INDUSTRY HAS WRITTEN OFF THE 51 MILLION POUNDS OF GRANTS THUS FAR DISBURSED AND HAS NOT MADE ANY MOVE TO FORECLOSE ON THE 31 MILLION POUNDS IN LOANS TO CHRYSLER. TRADE UNION REACTION HAS BEEN CAUTIOUS WITH PLANT LEVEL UNION OFFICIALS EXPRESSING GUARDED APPROVAL OF THE POSSIBILITY OF BEING ASSOCIATED WITH A STRONGER FIRM. NATIONAL TRADE UNION LEADERS HAVE CALLED FOR A THOROUGH VETTING OF THE PEUGEOT OFFER. SOURCES IN HMG

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R 171709Z AUG 78
FM AMEMBASSY LONDON
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TREASURY AND THE PRIME MINISTER'S OFFICE HAVE EXPRESSED THE VIEW TO US THAT ERIC VARLEY, OVER THE COMING WEEKS, IS LIKELY TO COBBLE TOGETHER AN AGREEMENT WITH PEUGEOT AND THE INTERESTED TRADE UNIONS UNDER WHICH HMG WOULD APPROVE THE OFFER WHILE PEUGEOT MAKES SOME ULTIMATELY COSMETIC PROMISES TO SUSTAIN EMPLOYMENT IN CHRYSLER'S UK PLANTS. INDEED, PEUGEOT HAS ALREADY EXPRESSED CONFIDENCE IN ITS ABILITY TO RESOLVE THE INDUSTRIAL RELATIONS PROBLEM IN SCOTLAND. IN OUR VIEW THIS CLAIM IS MORE OF A LIMITED OFFICIAL USE

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PUBLIC RELATIONS PLOY THAN ANYTHING ELSE.

10. COMMENT: THE RELATIVE IMPOTENCE OF HMG IN THE FACE OF THE CHRYSLER-PEUGEOT MANEUVERINGS IS TESTIMONY TO THE FREEDOM OF MANEUVER OF TRANSNATIONAL COMPANIES, EVEN THOSE IN FINANCIAL STRAITS. WITH A \$320 MILLION COMMITMENT TO CHRYSLER UK, WON IRONICALLY OVER THE SPIRITED OPPOSITION OF ERIC VARLEY, HMG'S PIQUE AT ITS EXCLUSION FROM THE NEGOTIATIONS IS, TO PUT IT MILDLY, UNDERSTANDABLE.

11. HMG'S DEEP INVOLVEMENT WITH CHRYSLER UK STEMS DIRECTLY FROM ITS POLICY OF ENCOURAGING INVESTMENT IN REGIONS OF HIGH UNEMPLOYMENT. THE 1975 RESCUE WAS SWUNG IN CABINET BY THE NEED TO AVOID THE CLOSURE OF CHRYSLER'S SCOTTISH PLANT AND THE LOSS OF 8,000 JOBS. HMG'S LIKELY APPROVAL OF THE PEUGEOT OFFER WILL REFLECT SIMILAR CONSIDERATIONS. JUST AS THE 1975 RESCUE ONLY DELAYED THE NEED TO DEAL WITH THE FUNDAMENTAL ECONOMIC PROBLEMS FACING CHRYSLER, SO THE PROBABLE HMG GREEN LIGHT TO PEUGEOT IS LIKELY TO SUSTAIN THE SCOTTISH JOBS BEYOND THE CRUCIAL ELECTION PERIOD. AFTER THAT PEUGEOT, LIKE CHRYSLER, IS NOT APT TO DRAIN ITS OWN RESOURCES TO MAINTAIN AN UNECONOMIC OPERATION. THE GOVERNMENT OF WHATEVER PARTY IS IN POWER WILL ONCE AGAIN FACE THE QUESTION OF APPROVING A RATIONALIZATION PLAN OR BORROWING TIME AT A VERY HIGH PRICE.

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Message Attributes

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Draft Date: 17 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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